

CARIBBEAN DEVELOPMENT BANK

**SUPPORT FOR HAITI TO MEET COMMITMENT TO
CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
FOR THE 2017-2018 HURRICANE SEASON**

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Considered at the Two Hundred and Seventy-Sixth Meeting of
the Board of Directors on May 22, 2017

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CARIBBEAN DEVELOPMENT BANK

**TWO HUNDRED AND SEVENTY-SIXTH MEETING OF THE BOARD OF DIRECTORS
TO BE HELD IN THE TURKS AND CAICOS ISLANDS
MAY 22, 2017**

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1. BACKGROUND

1.01 The Borrowing Member Countries (BMCs) of the Caribbean Development Bank (CDB), are among the most vulnerable in the world to natural hazards. The impact of natural hazards has the potential to reduce the productive capacity of a country resulting from the destruction of its physical and human capital. The Caribbean has suffered significant natural disasters in the last decade, the most frequent of which has been the repeated incidence of tropical storms and hurricanes. National income is lost through destruction of infrastructure, and loss or damage to productive assets, with a resulting loss of production capacity and disruption of social services with severe consequences for low-income persons. The losses do not only affect employment and personal income, but have adverse implications for government revenues and expenditures, with significant impact on the balance of payment positions.

2. CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY

2.01 In 2005, the Caribbean Community (CARICOM) requested assistance from the World Bank (WB) with gaining access to affordable and effective catastrophe insurance. In response to the request from CARICOM, WB together with other partners, including CDB, developed Caribbean Catastrophe Risk Insurance Facility (CCRIF). CCRIF, was launched in 2007, as the first regional, not-for-profit risk pool in the world. It was also the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. The successful launch and ongoing operations of CCRIF have received worldwide attention since the first policies were issued in 2007.

2.02 In 2007 CCRIF was registered as a fully capitalised independent legal entity in the Cayman Islands, and commenced operations. It was incorporated as a captive special purpose vehicle, the main purpose of which is the sale of insurance coverage to participating countries. On May 27, 2014 CCRIF was re-registered with the Cayman register of companies as a segregated portfolio company (SPC) to facilitate expansion into new products and geographic areas. CCRIF SPC has its own Board of Directors comprising a representative from the donor countries, a representative from the participating countries, a financial and an insurance specialist. CCRIF SPC is wholly owned by a commercial trust (the CCRIF Trust) also registered in the Cayman Islands. The sole purpose of the CCRIF Trust is to establish and own

the CCRIF SPC. The beneficiaries of the CCRIF are the participating countries that buy insurance policies from the CCRIF SPC.

2.03 CCRIF insures government risk and is designed to limit the financial impact of catastrophic hurricanes, and earthquakes to governments by quickly providing short-term liquidity when a policy is triggered. The insurance coverage purchased is akin to business interruption insurance, and provides rapid cash payment after a catastrophic earthquake, hurricane or excess rainfall event of sufficient magnitude to impact the national economy. International studies show that quick-disbursing funds directed through government channels is needed to mitigate the immediate economic and social impacts of disasters as it enables governments to take ownership of the emergency response initiatives. More recently the Centre for Global Development (July 2016) research¹ shows that pressure on aid budgets is prompting donors to “make less do more” and that “the vast majority of funding arrives after hazards hit, often with a considerable delay that imposes financial and human costs”.

2.04 Caribbean governments are given the opportunity to purchase earthquake, hurricane and excess rainfall catastrophe coverage with lowest-possible pricing. The product offerings are now provided through the following segregated portfolios:

- (a) CCRIF SPC on behalf of Caribbean Earthquake-Tropical Cyclone (EQ-TC) Segregated Portfolio; and
- (b) CCRIF SPC on behalf of Caribbean Excess Rainfall Segregated Portfolio.

2.05 Claims payment under CCRIF depends on parametric triggers, i.e. the occurrence of a pre-defined event of a specific intensity, rather than an assessment of actual damage on the ground. This determination is made remotely by an independent agency resulting in quick processing of claims. Participating countries receive compensation proportional to the losses from the pre-defined events, depending on the level of coverage agreed to in the insurance contracts. Since payouts are processed quickly, the insurance is particularly useful in financing immediate post-disaster recovery needs, allowing the affected Government time to seek funds from other sources for long-term reconstruction. CCRIF allows participating countries to pool their country-specific risks, to better diversify the portfolio and thereby reduce premium costs.

2.06 A high level of enrolment in CCRIF is critical for it to efficiently diversify its portfolio and thus access reinsurance on better terms. When CCRIF began on June 1, 2007 participating countries paid an entrance fee equal to their first premium to join CCRIF, as well as their first year’s premium. Premiums, which vary typically from USD200,000 to USD4,000,000, are paid from national budgets. Over its ten-year existence, CCRIF has been able to adhere to its value proposition of paying within 14 days of a policy being triggered. To date, CCRIF has made 22 payments to 10 member countries, totalling USD69 million (mn). In 2016, nine payouts were made to six countries. To date Haiti has received three payouts, one for the 2010 earthquake and two for Hurricane Matthew in October 2016.

2.07 Haiti’s annual premium payments to CCRIF, for the first two seasons were met by a grant from the International Development Association (IDA), a member of the WB Group. IDA also provided financial assistance to Haiti to meet half of the cost of that country’s CCRIF premium for the period June 1, 2009 to May 31, 2010. Subsequently the Government of Canada (GOC) provided financial assistance to meet the other half of the cost of Haiti’s CCRIF premium for the period June 1, 2009 to May 31, 2010. CDB and the GOC provided support for the premium payments for 2011 and

¹ T. Talbot, O. Barder Payments for Peril (Centre for Global Development, July 2017).

2012. CDB has provided grants for full payment of Haiti's CCRIF premiums since May 2013. Haiti has received a payout of USD7,753,579 from CCRIF following the catastrophic magnitude 7.0 earthquake of 2010.

2.08 Given its fragility and high vulnerability to natural hazards, CDB committed, in the Country Strategy Paper for Haiti 2013-2016 to continue to pay Haiti's annual CCRIF premiums and to support efforts related to emergency disaster response and recovery, and to provide support to Haiti through other mechanisms aimed at building resilience to the impact of natural hazards. In the recently concluded Special Development Fund (SDF) 9 negotiations, Contributors agreed that there should be a continuation of the grant-supported programme of assistance for Haiti, with the main areas of programming being technical and vocational education, agriculture, disaster risk reduction and capacity building.

2.09 Hurricane Matthew made landfall near Les Anglais in southern Haiti, as a powerful Category 4 hurricane on the morning of October 4, 2016. Heavy rainfall ranged from 510 to 1,020 millimetres (mm) across southern Haiti with 24 hour totals of over 200 mm. Storm surges estimated at around 3 metres flooded at least 11 municipalities along the southern coast. CCRIF policies were triggered for both the TC and XSR aspects. Haiti received two payouts of USD20,388,067 and USD3,020,676, a total of USD23,408,834 within 14 days. The total payouts to Haiti, represents approximately 46 percent (%) of all payments made by CCRIF since its inception in 2007.

2.10 Approximately 2.1 mn people were affected by the storm, of whom 1.4 mn (12% of Haiti's population) were left in need of assistance. According to the Haiti's Civil Protection Directorate, as of October 14, the death toll was 546, with 128 people missing and 439 injured and roughly 175,000 were left homeless. Haiti's Ministry of Finance estimated losses at US\$1.9 billion or 20% of the country's gross domestic product. This was the largest disaster experienced in Haiti since the 2010 earthquake.

2.11 Haiti's Ministry of Finance said that the CCRIF insurance payout was used to provide food and shelter to at least 1.4 mn persons who were adversely affected and displaced by Matthew. In addition, it financed emergency repairs to social and physical infrastructure such as schools, churches and courthouses; cleaning and clearing of roads and drains and repairs to main road. With some 18,000 houses in southern Haiti left without roofs and much of the agriculture crops destroyed, financing was also provided for tarpaulin purchase and agricultural planting material.

2.12 By letter dated April 6, 2017, the Government of Haiti (GOH) requested grant assistance of USD3,500,000 to cover its CCRIF premiums for EQ, TC and XSR policies for the period June 1, 2017 to May 31, 2018. No other agency or institution will be assisting GOH to pay for its CCRIF premium coverage for these hazards, over this period. A summary of premiums including discounts² that have been applied by CCRIF for GOH's premiums for the 2017-2018 period is provided below:

SUMMARY OF DISCOUNTS APPLIED BY CCRIF 2017-2018
(USD)

Premium	Tropical Cyclone	Earthquake	Excess Rainfall	TOTAL
Gross Premium	1,800,000	770,000	1,283,880	3,853,880
Net Premium	1,620,000	693,000	1,155,492	3,468,492

² CCRIF has offered a general discount of 25% on the gross premium for TC and EQ down from 50% offered last year.

3. PROPOSAL

3.01 It is proposed that CDB make a grant to GOH of an amount not exceeding the equivalent of USD3,500,000, to meet the cost of Haiti's CCRIF premium for the period June 1, 2017 to May 31, 2018.

3.02 The proposal is consistent with the theme of the Ninth Cycle of the SDF of promoting environmental sustainability and climate change resilience, and with CDB's Corporate Priority of promoting environmental sustainability.

4. JUSTIFICATION

4.01 Haiti's weak administrative capacity and limited resources at both national and local governments to respond effectively remain overstretched by the increasing frequency and intensity of these events. Parametric insurance contracts pay out quickly and reliably, and for sufficiently large disasters and play a unique role in tackling humanitarian emergencies by providing quick liquidity at a time when there is a dramatic reduction in Government revenue and at the same time the need for large government services expenditures. Haiti recognises that insurance must be but one element of a larger national disaster risk reduction strategy. It has been taking steps with the support of its development partners to design and implement development projects that incorporate natural hazard risk reduction and adaptation to climate change as core elements of these initiatives. CDB is also preparing for a disaster risk reduction and climate adaptation initiative for the island of Ile-a-Vache off the south coast of southern peninsula that suffered extensive damage from Hurricane Matthew.

4.02 Insurance premiums are recurrent expenditures and should normally be provided for in national budgets. However, in view of the on-going social, economic and fiscal challenges being faced by the people of Haiti, GOH will not be able to make its payment to CCRIF. Parametric insurance coverage for Haiti provides some level of financial protection to a country already decimated by recent disasters. GOH said that the historic 2016 payout was a significant assistance to the emergency response and recovery process following the impact of Hurricane Matthew. Further, Ministry of Finance officials underscored the fact that despite pledges from the international community of humanitarian relief, much of this assistance had not arrived many weeks after the event. Without the quick payout from CCRIF, which helped to finance emergency relief and humanitarian assistance, the scale of losses and the degree of disruption and dislocation from Hurricane Matthew would have been far worse.

4.03 Since 2010, Haiti has doubled its earthquake coverage under CCRIF and in 2014 bought the new XSR insurance policy being offered by CCRIF. In Haiti, hurricanes have resulted in the highest death toll and displacement than any other climate induced factor in the twentieth century. In its history, Haiti has experienced 49 Category 1-3, 6 Category 3-4 that have wreaked havoc on the country. For the 2017 hurricane season, Haiti will still be in recovery mode from the Hurricane Matthew impact, and thus it is of critical importance that the coverage continues under the CCRIF policies. GOH has shown its commitment to building resilience, and continuing the CCRIF coverage will allow them to reduce their budget volatility with the use of risk transfer instruments such as the CCRIF insurance.

5. COST, FINANCING AND FUNDING SOURCE

5.01 The total cost of Haiti's CCRIF premium for the period June 1, 2017 to May 31, 2018 is estimated at USD3,468,492. It is proposed that CDB provide a Grant to GOH in an amount not exceeding USD3,500,000 from its Special Funds Resources (SFR) -Haiti Allocation. CDB's contribution is eligible for financing from CDB's SFR. Funds are available within existing resources.

6. RECOMMENDATION

6.01 It is recommended that CDB approve a grant to GOH of an amount not exceeding the equivalent of three million, five hundred thousand United States dollars (USD3,500,000) from its SFR, to meet the cost of GOH's premium payment to CCRIF SPC for the period June 1, 2017 to May 31, 2018, on CDB's standard terms and conditions and on the following terms and conditions:

1. Disbursement

- (a) Except as CDB may otherwise agree, disbursement of the Grant shall be made by CDB directly to CCRIF SPC in one payment on satisfaction of the conditions precedent without the necessity for a request or further instruction from GOH.
- (b) Payment of the Grant shall be made by December 2017 or such later date as CDB may specify in writing.

2. Conditions Precedent to Disbursement:

GOH shall furnish or cause to be furnished to CDB:

- (a) one (1) or more legal opinions, satisfactory to CDB, of a legal practitioner, acceptable to CDB, showing that:
 - (i) GOH has complied with all the necessary requirements under the constitution of Haiti and the laws and regulations in force in Haiti in order to enter into the Grant Agreement; and
 - (ii) the Grant Agreement has been duly authorised by and executed and delivered on behalf of GOH and constitutes a valid and binding obligation of GOH in accordance with its terms; and
- (b) proof, satisfactory to CDB, that the person or persons who signed the Grant Agreement on behalf of GOH was/were legally empowered to do so.